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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

PERIODIC REPORTING (PROPOSALS SIXTEEN THROUGH TWENTY)	Docket No. RM2012-2

REPLY COMMENTS OF THE UNITED STATES POSTAL SERVICE
(January 10, 2012)

The United States Postal Service hereby responds to the comments of Pitney Bowes, Inc. and of the Public Representative.[1]

I. Proposal Sixteen

The Public Representative believes that that the proposed Flats Sequencing System (FSS) productivity is unrealistic. Based on this belief, he advises the Commission to reject Proposal Sixteen until a more acceptable productivity is derived. The Public Representative's concern is predicated primarily on the fact that the proposed FSS productivity (833 TPF/hour) is "so much lower than the weighted average of TPH/hr of the AFSM100."[2] The Public Representative calculates a weighted average productivity of 3,629 TPF/hour for selected incoming AFSM100 operations.[3]

As noted in the Postal Service's response to Question 2 of Chairman's Information Request No. 1, differences in the definition of TPF for the multi-pass FSS process versus single-pass AFSM100 operations, and the inclusion of Stand-Alone Mail Prep (SAMP) labor in the FSS productivity, account for the lower measured FSS

[1] Comments of Pitney Bowes, Inc., Docket No. RM2012-2 (Dec. 30, 2011) ("Pitney Bowes Comments"); Revised Comments of the Public Representative, Docket No. RM2012-2 (Jan. 3, 2012) ("PR Comments").
[2] PR Comments, at 1.
[3] *Id.*, at 2.

productivity; the result is not a byproduct of some defect in the FSS machine count data. On an "apples-to-apples" basis, FSS distribution productivity—nearly 4,000 sort passes per workhour—actually would be somewhat higher than the Public Representative's AFSM100 benchmark. Because the Proposal Sixteen calculation is based on actual machine counts of pieces fed into the FSS main machine and total FSS system workhours, the Proposal Sixteen method is conceptually and operationally superior to proxies based on AFSM100 productivities.

The Public Representative suggests that additional data on workload and workhours could allow evaluation of the reliability of workload measures for the Stand-Alone Mail Prep operation (MODS operation 530) and/or the calculation of separate distribution and mail preparation productivities.[4] The Public Representative does not indicate what practical value might be expected from data generated by means (including manual entries and container-to-piece conversions) that are less reliable in principle than the machine counts from the FSS main machine. The Postal Service also observes that developing separate productivity measurements for the FSS preparation and distribution operations would require ensuring that employees reliably re-clocked while moving between SAMP and the FSS main machine.

Finally, the Public Representative suggests that it is "counter-intuitive" that modeled mail processing costs for flats products increase when the FSS switch is turned on in the flats model.[5] In fact, this result should be expected. With FSS, the Postal Service performs additional sortation within mail processing operations (the FSS cost pool) and thereby eliminates manual sequencing of flats by the carrier. Net

[4] *Id.*, at 2.
[5] *Id.*, at 3.

savings occur because the FSS productivity (per pass) is higher than the productivity of the manual carrier sequencing it replaces, though not necessarily because the absolute level of mail processing costs declines.

Because the Public Representative's concern regarding the proposed FSS productivity is misplaced, the Commission should ignore his recommendation and approve Proposal Sixteen.

II. Proposal Seventeen

The Public Representative does not question the appropriateness of the Proposal Seventeen modifications. The Postal Service therefore maintains that the Commission should approve Proposal Seventeen.

As a separate matter, however, the Public Representative expresses concern regarding the impact of Proposal Seventeen on the mail processing costs of Standard Mail Letters. The Postal Service's response to Question 6 of Chairman's Information Request No. 1 provides the information sought by the Public Representative.

III. Proposal Eighteen

Pitney Bowes and the Public Representative express concern regarding some of the proxy parameters used in the Proposal Eighteen model. The Postal Service used proxy parameters because, at the time that Proposal Eighteen was filed, operational data were not yet available. The proxies were used simply to facilitate consideration of the model itself; they were not intended to become permanent features of the model.

More recently, when the Postal Service filed its FY 2011 Annual Compliance Report (ACR), it replaced most of the Proposal Eighteen model's proxy parameters with

operational data.[6] The Postal Service has used MODS and RPW data to replace the proxy estimate of the proportion of mail processed on the FSS (20 percent) with the measured proportion of FSS-eligible mail processed on the FSS. FY 2011 Mail Characteristics Study (MCS) data provide estimates of the number of pieces in FSS bundles and the number of FSS bundles. The productivities for FSS operations have been estimated using MODS data. The few proxies which have not yet been replaced are associated with insignificant cost elements are irrelevant.[7]

Docket No. ACR2011 is the appropriate venue for assessing the parameters applied to the Proposal Eighteen model. The present docket concerns the actual mechanics of the Proposal Eighteen model. Neither Pitney Bowes nor the Public Representative disputes the appropriateness of the model and its mechanics. Indeed, the Proposal Eighteen model is not even a change to an analytical principle in the classic sense, with a new analytical principle being applied to measure a static phenomenon. Rather, in Proposal Eighteen, existing analytical principles are extended to a new phenomenon, namely FSS processing. Therefore, the Commission should approve Proposal Eighteen. The failure to do so would cause FSS processing costs to be subsumed into non-FSS operations, thus yielding cost estimates that are biased.

As a separate matter, the Public Representative advises the Commission to "eliminate the practice of truing up the 5-digit bundle share of volume at piece distribution and 5-digit level at each container level by using the in-plant IS coverage

[6] *See* USPS-FY11-11, Docket No. ACR2011 (Dec. 29, 2011).
[7] The downflow densities for FSS bundles on ADC containers are proxied using the CR downflow densities, but only 643 FSS bundles on ADC containers were measured in FY 2011, out of a total of 485 million Periodicals bundles.

factor."[8] The practice referred to by the Public Representative is not at issue in Proposal Eighteen, so it is unclear why he considers this docket the appropriate venue for his suggestion. In any case, accomplishing the Public Representative's suggestion would require the Postal Service to collect incoming sort plans for all processing facilities, and identify which zones are processed manually and which zones are processed with mechanized equipment. At present, the Postal Service does not maintain a central data system that could make this task practicable. Decisions of which zones to process manually or in a mechanized fashion are made at the local level. Thus, consideration of this issue should be postponed, at least until the processing facility consolidations proposed in Docket No. N2012-1 are decided on and, as the case may be, implemented.

IV. Proposal Nineteen

The Public Representative supports the approval of Proposal Nineteen. The Postal Service agrees.

V. Proposal Twenty

In regard to Proposal Twenty, the Public Representative "recommends the Commission reject the proposed method of estimating Reply Mail avoided costs by estimating the difference between RBCS-related barcoding costs of hand-written and barcoded Reply Mail."[9] The Postal Service did not recommend in Proposal Twenty that

[8] PR Comments, at 11.
[9] *Id.*, at 15.

the cost avoidance model be changed.[10] Therefore, the Public Representative's recommendation is misplaced. His comments should be ignored, and the proposal should be approved.

Proposal Twenty not only recommends modifications concerning the inclusion of new productivity data, but also provides, for the benefit of the record, extensive background information regarding the development of the current BRM cost model. Because the Commission has previously indicated its concern that the QBRM cost avoidance is understated, the Postal Service explained why the methodology is still appropriate and why the values have decreased over time. As part of this background information, the Postal Service explained why the cost avoidance estimate should focus on the RBCS costs required to apply a barcode to a handwritten mail piece. Unfortunately, these statements appear to have confused the Public Representative. Therefore, a clarifying explanation is furnished below.

Mail volumes determine the point at which BRM mail pieces are isolated from the residual single-piece letters mail stream. Local utilities generally receive high volumes of mail. If a local utility relies on barcoded BRM as a channel for its customers to pay its bills, the mail pieces will typically be canceled on the Advanced Facer Canceler System (AFCS) and sorted to the bins for facer identification mark (FIM) A and C, which indicate that the mail pieces are barcoded. These mail pieces will then be processed on the outgoing primary FIM program on a delivery bar code sorter (DBCS). Given that the utility receives a high volume of mail, the outgoing primary sort will likely have a bin for

[10] The only modifications that the Postal Service presented in Proposal Twenty concern new productivity data that can be used in the cost models that support BRM fees. The Public Representative's comments contain no discussion of those recommended improvements.

the utility's mail. No further processing will therefore be required, and postage due clerks can count, rate, and bill the mail.

If the utility were to require that its customers use non-barcoded handwritten or machine printed envelopes to pay its bills, the mail pieces would still be canceled on the AFCS, but they would not be sorted to the FIM A and C bins. Instead, the images would be lifted and the mail pieces wpuld be sorted to the "local mail" bins. After enough time has passed to ensure that the RCR and/or REC processing has been completed, the mail pieces will be processed on an OSS program where a barcode will be applied to the mail pieces. Given the high volume of mail the utility receives and the high number of bins available on today's DBCSs, the OSS program will likely have a bin for the utility's mail. No further processing will therefore be required and postage due clerks can count, rate, and bill the mail.

Under both scenarios, the utility's mail is isolated after one sortation on a bar code sorter. The additional costs required to apply a barcode to the non-barcoded mail pieces represent the only mail processing cost difference.

Some low-volume firms also rely on BRM as a channel to communicate with their customers. If a firm relies on barcoded BRM as a channel for its customers to pay its bills, the mail pieces will typically be canceled on the AFCS and sorted to the FIM A and C bins. These mail pieces will then be processed on the outgoing primary FIM program. Given that the firm receives a low volume of mail, the outgoing primary will not likely have a bin for the firm's mail. This mail would therefore have to be processed through one or more additional steps on a DBCS until it has been sorted to the 5-digit level and is ready to be processed on the incoming secondary operation specific to the plant or

delivery unit where the mail will be picked-up. The incoming secondary operation will generally have a “housekeeping” bin for all BRM. Postage due clerks at the destinating facility will then manually sort the BRM from that bin to the firm level. At that point, the postage due clerks can count, rate, and bill the mail.

If a low-volume firm relies on non-barcoded handwritten or machine-printed mail pieces to communicate with its customers, the mail pieces will still be canceled on the AFCS, but they will not be sorted to the FIM A and C bins. Instead, the images would be lifted and the mail pieces would be sorted to the “local mail” or “non-local mail” bins. After enough time has passed to ensure that the RCR and / or REC processing has been completed, the mail pieces will be processed on an OSS program where a barcode will be applied to the mail pieces. Given the low volume of mail the firm receives, the OSS program will not likely have a bin for the utility’s mail. This mail will therefore have to be processed through one or more additional steps on a DBCS until it has been sorted to the 5-digit level and is ready to be processed on the incoming secondary operation specific to the plant or delivery unit where the mail will be picked up. The incoming secondary operation will generally have a “housekeeping” bin for all BRM. Postage due clerks at the destinating facility will then manually sort the BRM from that bin to the firm level. At that point, the postage due clerks can count, rate, and bill the mail.

Under both scenarios, the low-volume firm’s mail is isolated after the same series of DBCS processing steps; the additional costs required to apply a barcode to the non-barcoded mail pieces represent the only mail processing cost difference.

As noted at the outset, the Public Representative's recommendation is inapposite and should have no bearing on the approval of Proposal Twenty. However, as demonstrated by the discussion above, the Public Representative's comments are also mistaken.

VI. Conclusion

Having addressed all of the concerns submitted by commenters regarding Proposals Sixteen through Twenty, the Postal Service requests that the Commission approve the proposals.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Pricing & Product Support

Nabeel R. Cheema

475 L'Enfant Plaza, S.W.
Washington, D.C. 20260-1135
(202) 268-7178; Fax -5402
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